STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

FILED
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A1908013

April 14, 2023

Agenda ID #21536
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 19-08-013:

This is the proposed decision of Administrative Law Judge Ehren D. Seybert and Administrative Law Judge Sophia J. Park. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 18, 2023, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties to the proceeding may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE
Michelle Cooke
Acting Chief Administrative Law Judge

MLC:mef
Attachment

Decision **PROPOSED DECISION OF ALJ EHREN D. SEYBERT AND ALJ SOPHIA J. PARK Mailed on (4/14/2023)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authority to Increase its Authorized Revenues for Electric Service in 2021, among other things, and to Reflect that Increase in Rates.	Application 19-08-013

DECISION MODIFYING DECISION 21-08-036 AND ADOPTING AGREEMENT REGARDING WILDFIRE LIABILITY INSURANCE

Summary

This decision adopts the uncontested settlement agreement proposed by Southern California Edison Company (SCE), the Public Advocates Office at the California Public Utilities Commission, and The Utility Reform Network addressing SCE's wildfire liability insurance costs for 2023 and 2024. Adoption of the settlement agreement results in a reduction of $80 million to SCE's authorized revenue requirement for 2023, a potential $160 million reduction to SCE's requested revenue requirement for 2024, as well as other potential savings and benefits to ratepayers. This decision modifies and supersedes any wildfire liability insurance provision of Decision 21-08-036 issued in Track 1 of this proceeding that conflicts with this decision.

Application 19-08-013 remains open.

1. Background

On August 30, 2019, Southern California Edison Company (SCE) filed Application (A.) 19-08-013 for Authority to Increase its Authorized Revenues for Electric Service in 2021, among other things, and to Reflect that Increase in Rates. SCE's application also included a request to recover certain recorded expenditures being tracked in various wildfire-related memorandum accounts (MAs).

A prehearing conference (PHC) was held on October 30, 2019, to determine the parties and discuss the scope of issues, categorization, schedule of the proceeding, and other procedural matters. During the PHC, SCE stated its intent to submit an amended application.

On November 7, 2019, SCE submitted its amended application.

On November 25, 2019, the assigned Commissioner issued a Scoping Memo and Ruling and divided the proceeding schedule into different tracks: Track 1 considers SCE's forecast revenue request for 2021-2023, encompassing all the issues generally considered in Phase 1 general rate case (GRC) applications. Tracks 2 and 3 consider review of SCE's 2018-2020 wildfire-related costs recorded in various MAs.

On April 17, 2020, the assigned Commissioner issued an Amended Scoping Memo and Ruling. Pursuant to the direction in Decision (D.) 20-01-002, which modified the GRC cycle for large energy utilities from a three-year to a four-year cycle, the Amended Scoping Memo added a Track 4 to consider funding for a third attrition year covering 2024.

On August 19, 2021, the Commission adopted a decision addressing Track 1 issues, D.21-08-036 (Track 1 Decision), which approved a base revenue requirement for test year 2021 and post-test year revenue requirement adjustments for 2022 and 2023.[1]

Among other things, the Track 1 Decision determined that it was prudent for SCE to maintain $1 billion in wildfire liability insurance coverage during the rate case cycle because it is consistent with the level of coverage SCE had maintained in prior years and what Assembly Bill (AB) 1054 (Stats. 2019) requires in order for SCE to access the Wildfire Fund.[2] The Wildfire Fund established by AB 1054 is available to provide coverage for eligible wildfire claims exceeding $1 billion in the aggregate in any year.[3]

The Track 1 Decision authorized SCE to collect an annual revenue requirement of $460 million to purchase up to $1 billion of commercial wildfire liability insurance each year through December 31, 2023.[4] The Track 1 Decision also authorized SCE "to continue to track and seek recovery of any wildfire liability insurance costs above the adopted forecast through the [Wildfire Expense Memorandum Account (WEMA)]."[5] SCE was also directed to establish the one-way Risk Management Balancing Account (RMBA) to record and return any overcollection of wildfire liability costs to ratepayers.[6] Noting the significant increase in wildfire liability insurance premiums in recent years, the Track 1 Decision did not foreclose SCE from using alternative risk transfer instruments,

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[1] A detailed procedural history for Track 1 of this proceeding is set forth in D.21-08-036 at 5-9.

[2] D.21-08-036 at 397 and 615 (Finding of Fact (FOF) 483).

[3] Pub. Util. Code § 3280(f).

[4] D.21-08-036 at 400-401 and 616 (FOF 490).

[5] D.21-08-036 at 405 and 667-668 (Conclusion of Law (COL) 181).

[6] D.21-08-036 at 404-405 and 667-668 (COL 181).

including self-insurance, in place of traditional wildfire liability insurance if circumstances warrant.[7]

On May 13, 2022, SCE filed its Track 4 request for its 2024 base revenue requirement. In its Track 4 request, SCE proposes having the existing authorized annual revenue requirement for its wildfire liability insurance of $460 million brought forward to cover the period January 1, 2024 to December 31, 2024, with zero escalation, consistent with the treatment in 2022 and 2023.[8]

On February 8, 2023, SCE served notice pursuant to Rule 12.1(b)[9] of an all-party settlement conference related to a Petition for Modification of D.21-08-036 regarding wildfire liability insurance, with corresponding changes to SCE's Track 4 request. The settlement conference was held on February 15, 2023.

On February 22, 2023, SCE, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), and The Utility Reform Network (TURN) (collectively, Petitioners) filed a Joint Petition for Modification of Decision 21-08-036 and Expedited Approval and Adoption of the Attached Agreement of SCE, Cal Advocates, and TURN Regarding Wildfire Liability Insurance (Petition).

The Agreement[10] attached to the Petition settles wildfire liability insurance issues affecting Tracks 1 and 4 of this proceeding. The Petitioners seek to establish a customer-funded wildfire liability self-insurance program for SCE

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[7] D.21-08-036 at 402 and 667 (COL 177).

[8] Petition at 4 citing 2021 GRC Track 4 Workpapers.

[9] Unless otherwise specified, all references to a Rule are to the Commission's Rules of Practice and Procedure.

[10] Agreement Between SCE, TURN, and Cal Advocates to Jointly Petition to Modify D.21-08-036 on Wildfire Liability Insurance Issues, attached as Appendix C to the Petition (Agreement). The Agreement is also provided as an attachment to this decision.

covering: (1) the 2023-2024 wildfire liability insurance renewal period (*i.e.*, July 1, 2023-June 30, 2024); and (2) the first half of SCE's 2024-2025 wildfire liability insurance renewal period (covering July 1, 2024-December 31, 2024), in lieu of purchasing wildfire liability insurance from the commercial insurance market. The Agreement will result in a reduction in the 2023 calendar year revenue requirement authorized by the Commission in the Track 1 Decision for wildfire liability insurance. The Petitioners seek limited modifications to the Track 1 decision, as identified in Appendix A of the Petition, to effectuate the Agreement. SCE states that, if the Petition is granted, SCE will also make a corresponding adjustment in its Track 4 request to reflect a baseline revenue requirement consistent with the terms of the Agreement (*i.e.*, a reduction of approximately $160 million to its Track 4 request).

The Petitioners request expedited approval and adoption of the Agreement on or before May 18, 2023. SCE's existing commercial wildfire liability policies expire on June 30, 2023, and SCE will need to make decisions regarding any commercial wildfire insurance renewal by approximately mid-May 2023.

Concurrent with the filing of the Petition, the Petitioners filed a motion to shorten the time for responses to the Petition. The Petitioners' unopposed motion to shorten time was granted by ruling on February 23, 2023. No responses to the Petition were filed.

On March 30, 2023, the assigned Administrative Law Judges (ALJs) issued an email ruling directing SCE to provide additional information related to the Petition. SCE filed a response to the ruling on April 4, 2023.

2. Summary of Agreement

The Agreement sets forth a framework and a structure that would have SCE rely entirely on self-insurance for wildfire liability insurance coverage during the period between July 1, 2023 and December 31, 2028 (Program Period). However, the Petitioners are not seeking any Commission action at this time regarding SCE's insurance coverage for the 2025 through 2028 period. The Petitioners agree coverage for 2025 through 2028 should be addressed in SCE's 2025 GRC application to be filed on May 15, 2023.[11]

Key elements of the Agreement include:

- The initial rate recovery amount for SCE's revenue requirement from July 1, 2023 to December 31, 2023 shall be $150 million for self-insurance, a reduction of approximately $80 million from SCE's currently authorized revenue requirement for this period. (Section 3.2.1)
- SCE's 2024 baseline revenue requirement for the period January 1, 2024 to December 31, 2024 (covered by the 2021 GRC Track 4) will be $300 million, representing a $160 million reduction in the revenue requirement for wildfire liability insurance currently requested by SCE in that track. This baseline revenue requirement of $300 million for 2024 will be subject to a one-time additional customer credit of up to $24 million of wildfire liability insurance amounts previously collected from SCE customers to the extent that those amounts remain unencumbered by previous wildfire losses as of January 1, 2024 as further described in the Agreement, as well as the Adjustment Mechanism described below. (Section 3.2.2)
- In each year of the Program Period, SCE would have a shareholder contribution of 2.5 percent of any self-insurance costs ultimately paid for wildfire events that occur and result in claims that exceed $500 million, in

[11] Petition at 5.

aggregate, up to $1 billion. The total amount of the contribution will not exceed $12.5 million annually (*i.e.,* 2.5 percent of $500 million). No rate recovery of such shareholder contribution costs will be permitted. (Section 3.2.4)

- The accrued self-insurance funds will be invested and the resulting returns used to offset a portion of the cost to Commission-jurisdictional customers. (Section 3.6)
- To the extent recovery is available from transmission customers under SCE's Federal Energy Regulatory Commission (FERC) formula rate, the amounts recovered would be applied toward achieving a total, available self-insurance accrual amount of $1 billion. (Section 3.5)
- The following mechanism for annual adjustments for 2024 and subsequent years of the Program Period would apply:[12]
  - Beginning in 2024, if the estimated claims for wildfire events from July 1, 2023 to December 31, 2023 exceed $150 million, the baseline revenue requirement of $300 million authorized to be collected in rates for self-insurance in 2024 would increase by 50% of the difference between the estimated self-insurance costs for wildfire events in the prior six-month period and $300 million. (Section 3.2.3.1)
  - Beginning in 2025 and through the remainder of the Program Period, if the estimated self-insurance costs for wildfire events from the immediately preceding year (including any increase or decrease in estimated Self-Insurance Costs for Wildfire Events in prior years of the Program Period) exceed the amount collected for self-insurance in that same year, the self-insurance amount authorized to be collected in rates during the following year would increase by 50 percent of the difference between the self-insurance amount collected and the

[12] Illustrative calculations of the Adjustment Mechanism and shareholder contribution are included in Appendix A and Appendix B to the Agreement.

  estimated self-insurance costs for wildfire events in the immediately preceding year. The increase in revenue requirement would become effective January 1 of the following year, or as soon thereafter as practicable. (Section 3.2.3.1)

  - The amount of any SCE shareholder contribution (Section 3.2.4) or any one-time credit (Section 3.2.2.2) described above would not be considered in determining whether an increase is triggered under the Adjustment Mechanism.
  - The self-insurance amount to be collected in rates annually shall be no greater than the amount that would achieve a total available self-insurance accrual amount of $1 billion as of the end of the year, assuming no wildlife liability self-insurance costs are incurred that year. The amount collected for self-insurance in the annual revenue requirement would be reduced for subsequent years if, when added to the self-insurance fund balance, the total would exceed $1 billion as of the end of that year. (Section 3.2.3.2)

- The Agreement includes provisions for addressing the balance of self-insurance funding at the end of the Program Period, whether the funding is overcollected (such that the amount of wildfire-related claims over the cycle is less than the amount of self-insurance) or undercollected (the amount of claims exceeds the amount of self-insurance). (Section 3.3)
- For the Program Period, no reimbursement of self-insurance funding or self-insurance costs will be subject to reasonableness reviews. (Section 3.4)
- A Tier 2 advice letter process will be used for implementing necessary revenue requirement adjustments under the Agreement, as well as resolution of the overcollection or undercollection that may exist at the end of the Program Period. (Section 3.7)

- SCE's RMBA shall be modified as necessary to support administration of the Agreement and, more broadly, the shift to reliance on 100 percent self-insurance for wildfire liability insurance during the Program Period. (Section 3.8)
- The Petitioners will meet and confer twice annually and can make modifications to the Agreement terms, if and only if mutually agreed upon by all parties; SCE agrees to a 100 percent self-insurance model unless parties unanimously agree that third-party insurance is in customers' interest and should be pursued (which modification to the Agreement would be presented via a Tier 1 advice letter). (Sections 3.4 and 3.10.2)

3. Standard of Review

Pursuant to Rule 12.1(d), the Commission will not approve a settlement unless it is "reasonable in light of the whole record, consistent with law, and in the public interest." As a matter of public policy, the Commission generally favors settlements of disputes if they are fair and reasonable in light of the record.[13] This policy supports many goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce an unacceptable result.

4. Discussion of Agreement

We find that the Agreement satisfies the standard for approval of settlements set forth in Rule 12.1(d).

We find the Agreement to be reasonable in light of the record and in the public interest. SCE's wildfire insurance costs have increased significantly in recent years. In the 2018 GRC, the Commission authorized $92.4 million for total liability insurance expense (combined wildfire and non-wildfire) for the 2018 test

[13] D.14-12-040 at 15; D.11-12-053 at 72.

year.[14] In the Track 1 decision, the Commission authorized a 2021 test year forecast of $460.0 million for wildfire liability insurance costs to obtain $1 billion of coverage based on SCE's recorded 2020 costs.[15] Due to the volatility and uncertainty of these costs, the Commission authorized SCE to establish the one-way RMBA to ensure any overcollection is returned to ratepayers and also authorized SCE to continue to seek rate recovery of any costs in excess of the forecast through its WEMA.[16] The Commission stated that "If insurance costs continue to escalate, at some point, insurance may no longer be cost effective and consideration of alternative methods of managing risk or allocating costs may be warranted."[17]

SCE expects to see prices increase even further for its next renewal cycle (covering July 2023-June 2024). SCE's declaration supporting the Petition states that in the current market environment, even with a mix of commercial and self-insurance, it is likely that the $460 million annual revenue requirement authorized in the Track 1 Decision may be insufficient to obtain full coverage of $1 billion.[18] SCE anticipates its cost to procure $1 billion of commercial insurance coverage is likely to exceed 50 percent of the insurance limits purchased.[19] SCE attributes the cost increase to a number of factors, including: continued exposure to wildfire risk given California's application of inverse condemnation law to investor-owned utilities, the percentage of SCE's service area located in elevated

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[14] D.21-08-036 at 398.

[15] D.21-08-036 at 400-401.

[16] D.21-08-036 at 404-405, 667-668 (COL 181).

[17] D.21-08-036 at 396-397.

[18] Declaration of John Butler, Appendix B to Petition, at ¶5.

[19] Declaration of John Butler, Appendix B to Petition, at ¶5.

fire risk areas and the frequency and severity of related wildfire and past claims SCE has paid, and the impact of extreme weather events exacerbated by the effects of climate change, which has reduced insurers' ability to access the reinsurance markets.[20]

The Petitioners contend that under the current circumstances, a self-insurance framework can provide better coverage at a lower cost than traditional third-party commercial wildfire liability insurance. The Petitioners note several potential benefits to customers of a self-insurance framework.[21] First, to the extent funds are not needed to cover losses in a given year, the self-insurance revenue requirement remains available for subsequent years. Under commercial insurance, insurers generally keep the premiums paid regardless of the amount of claims ultimately made against the policy. Second, there is often a lag between the time a wildfire event occurs and the time when claims are ultimately paid. Therefore, the amount of self-insurance that may be necessary to pay claims in future years does not necessarily need to be collected in rates upfront, and all at once.

The Agreement would adopt an annual baseline revenue requirement of $300 million for wildfire liability self-insurance coverage compared to the $460 million revenue requirement for commercial coverage adopted in the Track 1 Decision. Adoption of the Agreement would result in a reduction of $80 million in the authorized revenue requirement for 2023 for the period covering July 1, 2023 to December 31, 2023. If the Adjustment Mechanism remains untriggered in

[20] Petition at 6.

[21] Petition at 8-9.

2023, customers would see an additional $160 million revenue requirement reduction for 2024 compared to SCE's Track 4 request.

In addition, the Agreement provides for potential additional savings and benefits to customers, including:

- Customers would receive a one-time $24 million credit in 2024 from previously collected wildfire liability insurance amounts to the extent those amounts remain unencumbered by previous wildfire losses as of January 1, 2024.
- SCE intends to invest the accrued self-insurance funds and use the resulting returns to offset a portion of the cost to Commission-jurisdictional customers.[22]
- SCE shareholders will contribute 2.5 percent of any self-insurance costs ultimately paid for wildfire events that occur and result in claims that exceed $500 million, in aggregate, up to $1 billion. This deductible creates an additional incentive for SCE to mitigate the risk of wildfires caused by its equipment.
- To the extent recovery is available from transmission customers under SCE's FERC formula rate, the amounts recovered would be applied toward achieving a total, available self-insurance accrual amount of $1 billion.

Although there are many potential benefits to customers, it is not guaranteed that customers will pay less under the self-insurance framework set forth in the Agreement compared to commercial wildfire liability coverage. Ultimately, the total cost to SCE customers will depend on the total amount of eligible wildfire liability claims that SCE incurs during the Program Period. In Appendices A and B to the Agreement, Petitioners set forth illustrative calculations showing scenarios that would result in potential revenue

[22] The Agreement does not require ratepayers to make additional contributions in the event that the investment of the self-insurance funds incurs losses.

requirement increases above the annual baseline revenue requirement. The Petitioners represent they have reviewed potential outcomes under numerous scenarios and believe there is a potential for significant savings through a self-insurance framework, particularly given the low likelihood that annual losses would exceed $1 billion.[23] Based on review of SCE's recent recorded wildfire liability claims and recovery amounts, we agree with Petitioners that the likelihood of annual losses exceeding $1 billion is low.[24]

Under the circumstances outlined above, we find the Agreement to be reasonable in light of the record and in the public interest. Although not guaranteed, we find it likely that customers will receive more cost savings and benefits from self-insurance in 2023 and 2024 compared to commercial insurance. The proposed self-insurance program for SCE is substantially similar to the multi-year 100 percent self-insurance program for wildfire liability approved for Pacific Gas and Electric Company (PG&E) in its 2023 GRC.[25] In approving PG&E's self-insurance program, we similarly found that: "Since 2017, wildfire liability insurance for third-party claims has risen to the point that self-insurance is likely to achieve sufficient insurance coverage at a lower overall cost to PG&E's customers than commercial insurance."[26]

We also find the Agreement to be consistent with the law. The Agreement is structured to enable SCE to provide wildfire liability insurance coverage within the framework provided by the Wildfire Fund during the Program Period, at a level that is consistent with the requirement that the utility maintain

[23] Petition at 16.

[24] SCE April 4, 2023 Response, Exhibit A.

[25] D.23-01-005 issued in A.21-06-021.

[26] D.23-01-005 at 1.

reasonable insurance coverage under Public Utilities Code Section 3293. We are unaware of any inconsistency with the Public Utilities Code, Commission decisions, or the law in general. No party opposed the Agreement or notified the Commission of any statutory provisions or applicable law that would be contravened or compromised by the Agreement.

For the reasons stated above, we find the Agreement to be reasonable in light of the whole record, consistent with law, and in the public interest. The Agreement meets the criteria for approval under Rule 12.1(d), and therefore, we approve the Agreement without modification. Any provision of D.21-08-036 that conflicts with our approval of the Agreement is superseded by this decision.

5. Comments on Proposed Decision

The proposed decision of ALJ Sophia J. Park in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on __________, and reply comments were filed on _____________ by ________________.)

6. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Sophia J. Park and Ehren D. Seybert are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. The Petitioners held a settlement conference on February 15, 2023, with notice to all parties in the proceeding.

2. The recorded cost of commercial insurance to cover SCE's wildfire liability is up to 46 percent of the coverage it would provide.

3. The Wildfire Fund will limit SCE's annual wildfire liability to the annual Wildfire Fund deductible of $1 billion.

4. Unlike with commercial insurance, under a self-insurance framework, if funds are not needed to cover losses in a given year, the self-insurance revenue requirement remains available for subsequent years.

5. Given that there is often a lag between the time a wildfire event occurs and the time when claims are ultimately paid, the amount of self-insurance that may be necessary to pay claims in future years does not necessarily need to be collected in rates upfront all at once.

6. Adoption of the Agreement would result in a reduction of $80 million to the authorized revenue requirement for 2023.

7. Adoption of the Agreement would result in a potential revenue requirement reduction of $160 million to SCE's requested revenue requirement for 2024 if the Adjustment Mechanism remains untriggered in 2023.

8. Pursuant to the Agreement, customers would receive a one-time $24 million credit in 2024 from previously collected wildfire liability insurance amounts to the extent those amounts remain unencumbered by previous wildfire losses as of January 1, 2024.

9. The Agreement provides for investment of the self-insurance funds, with a return that will provide an additional contribution to the amount of accrued funds and could serve to reduce the total amount collected from SCE customers.

10. The Agreement provides for a 2.5% shareholder contribution for annual losses exceeding $500 million up to $1 billion, in the aggregate.

11. The Agreement provides that to the extent recovery for self-insurance costs is available from transmission customers under SCE's FERC formula rate, the amounts recovered would be applied toward achieving a total, available self-insurance accrual amount of $1 billion.

12. The total cost reflected in the revenue requirement to SCE customers of the Agreement will depend on the total amount of eligible wildfire liability claims that SCE incurs during the Program Period.

13. In 2023 and 2024, SCE's wildfire liability insurance costs through self-insurance pursuant to the Agreement are likely to be less than the costs of commercial insurance for $1 billion of coverage.

14. Consideration of SCE's wildfire liability costs for 2025 through 2028 is outside the scope of this proceeding.

Conclusions of Law

1. The Agreement is consistent with SCE's participation in the Wildfire Fund.

2. The Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

3. The Agreement should be approved.

4. D.21-08-036 should be modified to the extent necessary to effectuate the Agreement.

O R D E R

IT IS ORDERED that:

1. The Joint Petition for Modification of Decision 21-08-036 and Expedited Approval and Adoption of the Attached Agreement of Southern California Edison Company (SCE), the Public Advocates Office, and The Utility Reform Network Regarding Wildfire Liability Insurance, filed on February 22, 2023, is granted as set forth in this decision. Any provision of Decision 21-08-036 concerning SCE's wildfire liability insurance costs that conflicts with this decision is superseded by this decision.

2. The attached Agreement Between Southern California Edison Company (SCE), The Utility Reform Network, and the Public Advocates Office at the

California Public Utilities Commission to Jointly Petition to Modify D.21-08-036 on Wildfire Liability Insurance Issues, dated February 22, 2023 (Agreement), is approved and adopted without modification. The term of the Agreement is for the remainder of SCE's 2021 General Rate Case period and may be extended in SCE's 2025 General Rate Case as set forth in Section 3.9 of the Agreement.

3. Southern California Edison Company (SCE) shall implement the terms of the Agreement Between SCE, The Utility Reform Network, and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify D.21-08-036 on Wildfire Liability Insurance Issues, dated February 22, 2023 (Agreement), as soon as practicable, including the following:

(a) On or before April 1 of each year of the Program Period, SCE shall file a Tier 2 advice letter that includes the claims activity for the prior year and shows the calculation of the revenue requirement to be included in rates for the following year under the Adjustment Mechanism in Section 3.2 of the Agreement, effective January 1 of that year. To expedite the adjustment of the revenue requirement, SCE may file a Tier 2 advice letter providing its best estimate of self-insurance costs for the year such that any adjustments to the revenue requirement may be implemented on January 1st of the following year or as soon as practicable thereafter. SCE may also file two additional advice letters throughout the year to inform the Commission of material changes to self-insurance cost data. The advice letter process described in Section 3.7 of the Agreement will continue until modified by the next general rate case.

(b) SCE shall file a Tier 2 advice letter to modify the terms of the Risk Management Balancing Account (RMBA) consistent with the terms of the Agreement and to ensure funds deposited in the RMBA Wildfire Liability Self-Insurance Subaccount are only used to support the self-insurance mechanism approved in this decision within 30 days of the effective date of this decision.

(c) SCE may account for its shareholder annual deductible by offsetting the amount of the revenue requirement to be collected in a following year or by otherwise including the amount of the deductible as a credit to customers in the RMBA, at shareholder cost.

(d) At the end of the Program Period, SCE may file a Tier 2 advice letter in accordance with Section 3.7.3 of the Agreement to true-up over and under collections described in the Agreement.

4. To the extent the Federal Energy Regulatory Commission (FERC) approves recovery self-insurance costs through FERC Transmission Owner (TO) rates, Southern California Edison Company shall: (a) allocate wildfire liability insurance costs to TO customers using the FERC-adopted allocations; and (b) use any amounts collected from TO customers for self-insurance and apply those amounts toward achieving a total available self-insurance accrual amount of $1 billion.

5. During the Program Period, Southern California Edison Company, the Public Advocates Office, and The Utility Reform Network (collectively, Petitioners), shall meet and confer twice annually. The Petitioners may only seek changes to the Agreement Between Southern California Edison Company, The Utility Reform Network, and the Public Advocates Office at the California Public Utilities Commission to Jointly Petition to Modify D.21-08-036 on Wildfire Liability Insurance Issues, dated February 22, 2023 (Agreement), through a

petition for modification of this decision except as provided in Section 3.4 of the Agreement.

6. Application 19-08-013 remains open.

This order is effective today.

Dated ______________________________, at San Francisco, California

ATTACHMENT

APPLICATION 19-08-013

AGREEMENT BETWEEN SOUTHERN CALIFORNIA EDISON COMPANY, THE UTILITY REFORM NETWORK AND THE PUBLIC ADVOCATES OFFICE AT THE CALIFORNIA PUBLIC UTILITIES COMMISSION TO JOINTLY PETITION TO MODIFY D.21-08-036 ON WILDFIRE LIABILITY INSURANCE ISSUES

ARTICLE 1

INTRODUCTION

In accordance with Rule 16.4 of the Rules of Practice and Procedure (Rules) of the California Public Utilities Commission (CPUC or Commission), the Parties (as defined *infra* at Section 2.4) mutually accept the terms and conditions stated herein and enter into this Agreement (Agreement) to jointly petition to modify D.21-08-036 (the decision adopting SCE's Test Year 2021 General Rate Case request) and implement corresponding changes to SCE's pending 2021 GRC Track 4 request to establish a wildfire liability self-insurance program for Southern California Edison Company (SCE) covering: (1) the 2023-2024 wildfire liability insurance renewal period (covering July 1, 2023-June 30, 2024); and (2) the first half of SCE's 2024-2025 wildfire liability insurance renewal period (covering July 1, 2024-December 31, 2024). This Agreement also binds the Parties to jointly propose, advocate for, and defend a request for Commission review and approval of the same wildfire liability self-insurance program terms set forth herein for SCE's forthcoming Test Year 2025 General Rate Case period (which will cover January 1, 2025-December 31, 2028).

ARTICLE 2

DEFINITIONS

2.1 The term "SCE" means Southern California Edison Company.

2.2 The term "Cal Advocates" means the Public Advocates Office at the California Public Utilities Commission.

2.3 The term “TURN” means The Utility Reform Network.

2.4 The term “Parties” means collectively SCE, TURN and Cal Advocates.

2.5 The terms “CPUC” or “Commission” mean the California Public Utilities Commission.

2.6 The term “Rule” means the CPUC Rules of Practice and Procedure (May 1, 2021).

2.7 The term “Agreement” means this Agreement.

2.8 The term “2021 GRC Track 1” means SCE’s Test Year 2021 General Rate Case Application 19-08-013.

2.9 The term “2021 GRC Track 1 Period” means the period between January 1, 2021 and December 31, 2023 for which the authorized revenue requirement has been and will be in place in accordance with the Commission’s final decision in the 2021 GRC Track 1 proceeding (D.21-08-036).

2.10 The term “2021 GRC Track 4” means the Track 4 request added to A.19-08-013 in the Amended Scoping Ruling of April 17, 2020, to consider funding for a third attrition year covering 2024.

2.11 The term “2021 GRC Track 4 Period” means the period between January 1, 2024 and December 31, 2024 for which the authorized revenue requirement has been and will be in place accordance with the Commission’s forthcoming final decision in the 2021 GRC Track 4 proceeding.

2.12 The term “2025 GRC” means SCE’s Test Year 2025 General Rate Case Application [A.23-05-XXX] to be filed May 15, 2023.

2.13 The term “2025 GRC Period” means the period between January 1, 2025 and December 31, 2028 for which the authorized revenue requirement will be in place in accordance with the Commission’s forthcoming final decision in the 2025 GRC proceeding.

2.14 The term “Program Period” means the period between July 1, 2023 and December 31, 2028, unless the self-insurance framework provided for in this Agreement is not adopted by the Commission for the 2025 GRC Period, in which case the Program Period will be revised to mean the period between July 1, 2023 and December 31, 2024.

2.15 The term “Wildfire Event” means a wildfire that is ignited during the Program Period.

2.16 The term “Self-Insurance Costs” means all types of loss up to $1 billion annually, arising from claims for wildfire liability, that have typically been covered by third-party wildfire liability insurance[1] such as and including, but not limited to, the cost of coverage for contractual wildfire liability; wildfire liability claims; judgments; awards; settlements; prejudgment or post-judgment interest; court costs and associated legal fees (excluding the costs of SCE's in-house counsel); appellate bonds; and other fees or costs associated with the investigation, defense and/or settlement of liability claims for Wildfire Events that are paid through self-insurance; as well the costs of any self-insured retention[2] or co-insurance provisions.[3]

2.17 The term "RMBA" means the Risk Management Balancing Account approved in D.21-08-036 concerning SCE's 2021 GRC Track 1, as will be modified consistent with this Agreement.

2.18 The term "Adjustment Mechanism" is the mechanism for determining the revenue requirements beginning in 2024 through the remainder of the Program Period as described in Section 3.2.2 below.

ARTICLE 3

TERMS AND CONDITIONS

3.1 Self-Insurance Framework for Wildfire Liability Insurance

The Parties agree that for the Program Period, SCE will self-insure its wildfire liability risk in lieu of purchasing wildfire liability insurance from the commercial insurance market, except as described in Section 3.10.

3.2 Funding for Self-Insurance in Rates

All funding for self-insurance including Self-Insurance Costs paid from the self-insurance program will be included in customer rates with the exception of the SCE shareholder contribution described in Section 3.2.4. As described in Section 3.4 below, neither the funding for self-insurance nor Self-Insurance Costs shall be subject to additional reasonableness review or refund.

3.2.1 Funding for Calendar Year 2023

Under the 2021 GRC Track 1 final decision (D.21-08-036), SCE is currently authorized

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[1] Edison International (EIX) is the named insured on commercial policies for wildfire liability, and will remain so under this Agreement, inclusive of all subsidiaries of EIX.

[2] For the 2021 GRC period (through December 31, 2024), the entirety of SCE's SIR is currently separately tracked as an eligible expense in the Wildfire Expense Memorandum Account (WEMA).

[3] This list is not exhaustive and is intended to capture what has typically been covered by third-party wildfire liability insurance including SCE's current Aegis wildfire liability policy.

to collect an annual revenue requirement of $460 million to procure a mix of commercial insurance and self-insurance covering potential wildfire liabilities in calendar year 2023. SCE's existing commercial market wildfire liability policies expire on June 30, 2023. As provided in this Agreement, the Parties agree that SCE is currently authorized to recover a revenue requirement of $230 million for the period January 1, 2023 to June 30, 2023 (covering the period when SCE's existing commercial policies will be in effect), and that it is reasonable for SCE to recover a revenue requirement of $150 million for the period July 1, 2023 to December 31, 2023 (covering the period when SCE's existing commercial policies will have expired), representing an $80 million reduction in the 2023 calendar year revenue requirement authorized by the Commission in the 2021 GRC Track 1 final decision for wildfire liability insurance.

3.2.2 Funding for Calendar Year 2024

3.2.2.1 Baseline Revenue Requirement for 2024

As provided in this Agreement, the Parties agree that it is reasonable for SCE to collect a baseline revenue requirement of $300 million for the period January 1, 2024 to December 31, 2024 (covered by the 2021 GRC Track 4), representing a $160 million reduction in the revenue requirement for wildfire liability insurance currently requested by SCE in that track. This baseline revenue requirement of $300 million for 2024 will be subject to the one-time credit described in Section 3.2.2.2 and the Adjustment Mechanism described in Section 3.2.3 below.

3.2.2.2 One-Time Credit in 2024

SCE agrees to provide a one-time credit to customers of up to $24 million in 2024 from wildfire self-insurance funds already collected in 2021 and 2022 from customers, but only to the extent that those amounts remain unencumbered by wildfire losses as of January 1, 2024. This credit will be effectuated by reducing the baseline revenue requirement for 2024 set forth in Section 3.2.2.1 above.

3.2.3 Adjustment Mechanism for Future Funding

The revenue requirement for 2024 and each subsequent year of the Program Period will be subject to adjustment based on the level of Self-Insurance Costs for Wildfire Events that occurred in the prior year period as described in this section 3.2.3.

3.2.3.1 Increase in Funding Based on Self-Insurance Costs Activity in Prior Year

Beginning in 2024, if the estimated Self-Insurance Costs for Wildfire Events that occur during the six-month period from July 1, 2023 to December 31, 2023 exceed $150 million, the baseline revenue requirement of $300 million authorized to be collected in rates for self-insurance in 2024 would increase by 50% of the difference between the estimated Self-Insurance Costs for Wildfire Events in the prior six-month period and $300 million.[4]

Beginning in 2025 and through the remainder of the Program Period, if the estimated Self-Insurance Costs for Wildfire Events from the immediately preceding year (including any increase or decrease in estimated Self-Insurance Costs for Wildfire Events in prior years of the Program Period) exceed the amount collected for self-insurance in that same year, the self-insurance amount authorized to be collected in rates during the following year would increase by 50% of the difference between the self-insurance amount collected and the estimated Self-Insurance Costs for Wildfire Events in the immediately preceding year. The amount of any SCE shareholder contribution or the one-time credit described in Section 3.2.2.2 above would not be considered in determining the size of any increase triggered under this Adjustment Mechanism.[5]

The amount of funding from the prior year would be effective January 1 each year thereafter. The amount of any increase in revenue requirement compared to the prior year as a result of this Adjustment Mechanism would be effective January 1 of each year or as soon thereafter as practicable subject to the Advice Letter process set forth in Section 3.7 below.

3.2.3.2 Decrease in Funding Based on Self-Insurance Costs Activity in Prior Year

Beginning in 2024 and through the remainder of the Program Period, the self-insurance

4 *See* Appendix A for illustrative Adjustment Mechanism and Shareholder Contribution calculations showing potential increases in revenue requirements from claims activity.

5 *See id*.

amount to be collected in rates annually shall be no greater than the amount that would achieve a total, available self-insurance accrual amount of $1 billion as of the end of the year, assuming no wildfire liability Self-Insurance Costs are incurred that year. Available self-insurance means a surplus amount of self-insurance that SCE has already collected in rates, which has not been identified by SCE as necessary to be reserved to pay for Self-Insurance Costs from a Wildfire Event.[6]

3.2.3.3 Applicability of Adjustment Mechanism in 2025

If the self-insurance framework is adopted for the 2025 GRC Period as described in this Agreement, the Adjustment Mechanism will continue to be in effect for the full Program Period from 2025 through 2028 subject to the terms described above. If the self-insurance framework is not approved by the Commission in the 2025 GRC, the Adjustment Mechanism will apply to the revised Program Period through the end of 2024.

3.2.4 SCE Shareholder Contribution

SCE will have a shareholder contribution equal to 2.5 percent of Self-Insurance Costs ultimately paid for Wildfire Event(s), that occur in a calendar year and that exceed $500 million, in aggregate, up to $1 billion in Self-Insurance Costs. The total annual amount of the contribution will not exceed $12.5 million (i.e., 2.5 percent of $500 million). The contribution will apply proportionally to the amount of Self-Insurance Costs paid for Wildfire Events between $500 million and $1 billion, such that the amount of contribution will be less than $12.5 million annually if the amount of Self-Insurance Costs paid for Wildfire Events that occur in a calendar year is greater than $500 million but less than $1 billion. The amount of the contribution will not be included in customer rates.[7]

3.3 Overcollections and Undercollections at the End of the Program Period

The Parties acknowledge that the total amount collected in rates for self-insurance over

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[6] *See* Appendix A for illustrative Adjustment Mechanism and Shareholder Contribution calculations showing potential decreases in revenue requirements based on the $1 billion available self-insurance cap.

[7] *See* Appendix A.

the Program Period will likely differ from the actual amount of Self-Insurance Costs to be paid through the self-insurance program for Wildfire Events. This section describes how overcollections and undercollections will be addressed at the end of the Program Period.

3.3.1 Determination of the Self-Insurance Balance at the end of the Program Period

Determining the amount by which the self-insurance fund balance is overcollected or undercollected at the end of the Program Period will depend, in part, on a true-up to reflect potential changes as the total amount of Self-Insurance Costs paid for Program Period becomes known and finalized. Because of the lag time between a Wildfire Event and payment of claims from that event, this true-up may extend beyond the end of the Program Period. The true-up will be handled through the Tier 2 Advice Letter process and RMBA as described in Sections 3.7 and 3.8 below, respectively.

3.3.2 Treatment of Undercollection at the End of the Program Period

If the amounts collected for self-insurance during the Program Period are undercollected (i.e., the amounts calculated as described above and collected in rates are less than the total amount of Self-Insurance Costs for Wildfire Events that occurred during the Program Period), the amount of undercollection shall be recovered in rates through the operation of the RMBA. Subject to a cap of $300 million per year, the undercollection shall be recovered 40% in the first year following the end of the Program Period; 30% in the second year following the end of the Program Period; and 30% in the third year following the end of the Program Period. Any remainder shall be fully recovered in the fourth year following the end of the Program Period.[8] SCE shall recover interest at the then-authorized memorandum and balancing account rate on the amount of undercollected Self-Insurance Costs at the rate that applies to its regulatory accounts. If the self-insurance framework is extended beyond the Program Period (i.e., after 2028) into subsequent GRC cycles and an undercollection results at the end of 2028, SCE shall be entitled

[8] *See* Appendix B for illustrative calculations for cost recovery of undercollections at the end of the Program Period under various scenarios.

to recover the undercollection subject to the same annual caps and percentages set forth in this section starting with the test year in the next GRC cycle (i.e., beginning in 2029 and concluding in 2032).

3.3.3 Treatment of Overcollection at the End of the Program Period

If the amounts collected for self-insurance during the Program Period are overcollected (i.e., the amounts calculated as described above and collected in rates are more than the total amount of Self-Insurance Costs for Wildfire Events that occurred during the Program Period), the amount of overcollection shall be available for self-insurance as part of SCE's then-existing insurance program with any remainder subject to disposition as the Commission may direct in its decision on SCE's next General Rate Case (i.e., for Test Year 2029).

3.4 No Reimbursement of Self-Insurance Funding or Self-Insurance Costs Tied to Reasonableness Determination

For the Program Period, self-insurance funding collected in customer rates shall not be subject to refund or reimbursement. Other than the shareholder contribution amount addressed in Section 3.2.4, SCE shareholders would not be at risk of bearing Self-Insurance Costs paid from the self-insurance program. To the extent the self-insurance funding from the revenue requirement approved in the Program Period is used to pay Self-Insurance Costs incurred from Wildfire Events, there would be no further review or determination of reasonableness associated with SCE's actions leading up to a wildfire for purposes of allocating self-insurance funding or Self-Insurance Costs between customers and shareholders. This would not impact in any way any need for a determination of reasonableness associated with SCE's actions leading up to a wildfire for any other purposes, including but not limited to whether shareholders are required to reimburse the AB 1054 Wildfire Fund for any claims paid from the Fund.

To the extent that Parties, after engaging in the meet and confer process described in Section 3.10.2, conclude that commercial insurance or reinsurance is in customers' interest and should be pursued, such modification to this Agreement would be presented via a Tier 1 advice letter for expedited Commission review and approval.

3.5 Rate Recovery in Transmission Owner Rates

The Parties acknowledge that there is currently a settlement in place with respect to the Federal Energy Regulatory Commission (FERC) formula rate for SCE, which does not specifically provide for the recovery of self-insurance, but does allow for recovery of wildfire liability insurance costs through the formula rate. Self-insurance will be funded through Commission-jurisdictional rates and allocated to the electric distribution function. To the extent available under SCE's FERC formula rate, SCE will seek recovery of the portion of self-insurance that would be allocated to transmission customers through FERC Transmission Owner (TO) rates.

To the extent SCE seeks FERC approval, SCE shall: (i) allocate wildfire liability insurance costs to TO customers using the FERC-adopted allocations; and (ii) use any amounts collected from TO customers for self-insurance and apply those amounts toward achieving a total, available self-insurance accrual amount of $1 billion. Self-Insurance will not be available for the amount of any wildfire claims allocated to FERC TO customers unless authorized through the formula rate.

3.6 Investment of Accrued Self-Insurance Funds

SCE will invest self-insurance funds not reserved for claims in an investment vehicle subject to appropriate safety and liquidity conditions, including pursuant to the investment guidelines of the domicile of Edison Insurance Services, Inc., a captive insurance company (EIS), if held at EIS, and any returns on that investment will be applied to offset the costs of self-insurance.

3.7 Administration of the Agreement Via Tier 2 Advice Letter Process

The Parties agree that the following aspects of the Agreement should be subject to administration via Tier 2 Advice Letter as follows:

3.7.1 Revenue Requirement Adjustment Mechanism for 2024 and Subsequent Years

SCE will file a Tier 2 Advice Letter that includes the claims activity for the prior year and shows the calculation of the revenue requirement to be included in rates for the following year under the Adjustment Mechanism.

The Parties acknowledge that the timing of Self-Insurance Costs data with respect to specific Wildfire Events can vary. As such, the Parties intend for the Agreement to provide flexibility with respect to the timing of Advice Letter submissions to facilitate the implementation of the Adjustment Mechanism. SCE may file a Tier 2 Advice Letter providing its best estimate of Self-Insurance Costs for the year such that any adjustments to the revenue requirement may be implemented on January 1st of the following year or as soon as practicable thereafter. SCE may file the Advice letter before the end of the calendar year, or until April 1 of the following year.

The Parties also acknowledge that initial Self-Insurance Costs for Wildfire Events can fluctuate materially as additional information regarding the Wildfire Event becomes known. Therefore, it is the intent of the Parties that SCE should be permitted to update the Self-Insurance Costs information submitted for purposes of implementing the Adjustment Mechanism from time to time. The Parties agree that SCE is authorized to file up to two additional Tier 2 Advice Letters within the calendar year as necessary to inform of material changes to previously reported Self-Insurance Costs data and seek to update the authorized revenue requirements permitted under the Adjustment Mechanism based on the updated data.

3.7.2 SCE Shareholder Contribution

SCE may account for its annual shareholder contribution, if any, by offsetting the amount of the revenue requirement to be collected in a following year or by otherwise including the amount of the contribution as a credit to customers in the RMBA. SCE's proposed ratemaking treatment of the contribution will be addressed as appropriate in its Tier 2 Advice Letters.

3.7.3 Treatment of Overcollections and Undercollections

The treatment of potential overcollection or undercollection that may exist at the end of the Program Period, including whether the self-insurance framework will be extended as provided for in this Agreement, will be addressed via Tier 2 Advice Letter Filing.

3.7.4 Advice Letter Process Beyond the Program Period

The Advice Letter process described in Section 3.7 above will continue throughout the Program Period to the extent the self-insurance framework is adopted in the 2025 GRC cycle as described in this Agreement. Additionally, as described in Section 3.3.1 above, the Parties acknowledge that because of a lag in the timing of payment of claims for Wildfire Events, the ultimate amount of any overcollection or undercollection may not be known at the end of the Program Period and may need to be trued up in the years that follow. The Advice Letter process described in Section 3.7.3 will be used as necessary for that true-up.

3.8 Risk Management Balancing Account (RMBA)

The RMBA will be revised as necessary to support administration of this Agreement, which implements a 100 percent self-insurance framework for wildfire liability insurance for the Program Period, subject to Sections 3.4 and 3.10. This will include tracking self-insurance funding in rates, tracking Self-Insurance Costs, implementing the self-insurance revenue requirements using the Adjustment Mechanism, implementing the SCE shareholder contribution as an offset to those revenue requirements or as a credit to the RMBA, crediting customers for any cost recovery from transmission customers through the FERC process, accounting for overcollections or undercollections at the end of the Program Period, applying investment proceeds against Self-Insurance Costs, and collecting interest. The Parties acknowledge that there could be unanticipated costs or benefits associated with its implementation that should be included in the RMBA as well. To the extent any such unanticipated costs or benefits are recorded to the RMBA, SCE will identify and discuss them in its Tier 2 Advice Letter filings where applicable.

Notwithstanding whether the self-insurance framework extends beyond the 2025 GRC Period or whether a different regulatory framework may be implemented in the future, the RMBA will remain effective beyond the Program Period at least until: (1) the final amounts of claims paid for Wildfire Events are known; (2) the final amounts of any overcollection or undercollection are known; and (3) SCE has collected the balance of any undercollection in customer rates through the RMBA or otherwise credited back any overcollection to customers.

3.9 Term of Agreement

The term of this Agreement is for the Program Period as set forth in Section 2.14 above. The Parties will file a joint petition for modification of SCE's 2021 GRC Track 1 final decision (D.21-08-036), which covers the period from July 1, 2023 to December 31, 2023, as well as appropriate updated materials as necessary to implement corresponding changes to the pending 2021 GRC Track 4 review, which covers the period from January 1, 2024 to December 31, 2024. In recognition of the multi-year benefits provided by a longer Program Period, the Parties further commit to submitting joint testimony in SCE's 2025 GRC supporting continuation of the self-insurance framework through the 2025 GRC cycle on the same terms and conditions set forth in this Agreement, as further described in Section 4.9 below.

Additionally, for reasons not limited to those described in Section 3.3.2, upon mutual agreement of the Parties, the Parties may seek Commission authorization to extend the term of this Agreement for one or more years via Tier 2 Advice Letter.

3.10 Ensuring Timely and Cost-Effective Wildfire Liability Insurance Coverage

3.10.1 Deadline for 2023-2024 Policy Year

The Parties recognize the need to determine the wildfire liability insurance approach for the 2023-2024 policy year (covering July 1, 2023-June 30, 2024) prior to the time when SCE would be expected to assess insurance options from third-party providers. Therefore, the Parties will seek timely adoption of this Agreement through means of a Commission decision on these insurance-related issues through the Petition for Modification process described herein.

SCE is currently considering its commercial wildfire liability insurance renewal for the 2023-2024 policy year. The renewal would replace existing coverage set to expire on June 30, 2023. SCE would need to make decisions on what insurance to include in that renewal by approximately mid-May 2023.

Should the Agreement be adopted in its entirety prior to mid-May 2023, SCE agrees not to replace the expiring commercial coverage with other commercial coverage, subject to the meet and confer process set forth in Section 3.10.2 below. Should the Agreement not be adopted in its entirety prior to the time by which SCE needs to procure commercial insurance for the 2023-2024 policy year, the Parties agree that SCE may replace the amount of coverage expiring at the time of the renewal with commercial insurance, self-insurance, or a combination thereof in accordance with SCE's 2021 GRC Track 1 Decision, with any above-authorized costs recorded in SCE's WEMA and subject to reasonableness review if the annual recorded costs exceed $460 million. The Parties agree that they would not oppose such a cost recovery request on procedural or policy grounds, but reserve their right to address whether the premiums were reasonably negotiated and reflect market conditions.

3.10.2 Meet and Confer Process

During the Program Period, the Parties will meet and confer twice annually and may make modifications to the terms of the Agreement, but if and only if mutually-agreed upon by all parties and consistent with Section 4.8 below.

ARTICLE 4

GENERAL PROVISIONS

4.1 Commission's Primary Jurisdiction

The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedies regarding this Agreement. None of the Parties may bring an action regarding this Agreement in any State or Federal court or administrative agency without having first exhausted its administrative remedies at the Commission.

4.2 Conflicts

In the event of any ambiguity or conflict between this Agreement and the joint petition for modification of SCE's 2021 GRC Track 1 final decision (D.21-08-036), the terms of this

Agreement shall prevail as among the Parties.

4.3 Intentionally Omitted

4.4 Compromise; No Precedent

The Parties agree that this Agreement represents a compromise to which all Parties have contributed. It does not constitute an agreement or endorsement of disputed facts and law presented by the Parties in this proceeding. No provision of this Agreement shall be construed against any Party because that Party or its counsel drafted the provision. The Parties agree that this Agreement does not constitute precedent regarding any principle or issue in this proceeding or in any future proceeding.

4.5 No Personal Liability

None of the Parties, or their respective employees, attorneys, or any other individual representative or agent, assumes any personal liability as a result of the Parties signing this Agreement.

4.6 Entire Agreement

This Agreement embodies the entire understanding and agreement of the Parties with respect to the matters described herein. Except as described in this Agreement, the Agreement supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations, or understandings among the Parties. This Agreement constitutes the entire agreement among the Parties.

4.7 No Reliance

None of the Parties has relied or presently relies on any statement, promise, or representation by any other Party, whether oral or written, except as specifically set forth in this Agreement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

4.8 No Modification

This Agreement constitutes the entire understanding and agreement of the Parties regarding the matters set forth herein. All prior oral or written agreements, settlements, principles, negotiations, statements, representations, or understandings whether oral or in writing regarding any matter set forth in this Agreement, are expressly waived and have no further force or effect. The Agreement may not be altered, amended, or modified in any respect except in writing and with the express written and signed consent of all the Parties hereto. After such time as the Commission has issued a final decision on the Petition for Modification adopting this Agreement and except as otherwise provided in Section 3.4, the Parties may only seek changes to this Agreement through a Petition for Modification of the Commission's decision adopting this Agreement.

4.9 Joint Support

Consistent with Section 3.9 and Section 3.10 above, the Parties agree to seek expeditious approval of a joint Petition for Modification of the 2021 GRC Track 1 decision to adopt this Agreement as well as corresponding changes to the 2021 GRC Track 4 request, and to jointly advocate for and jointly defend, continuation of the self-insurance framework through 2028 as will be reflected in insurance testimony and working cash testimony, as well as any other related submissions or filings, submitted by the parties in SCE's 2025 GRC cycle.

The Parties will use their reasonable best efforts to secure timely Commission approval of this Agreement without change. If the Commission denies the requested relief or grants the requested relief with modifications that are unacceptable to any Party, then the Parties reserve the right to rescind or renegotiate this Agreement as set forth in Section 4.10 below. The Parties agree to actively and mutually support and defend this Agreement, the associated Petition for Modification, and any subsequent or related submissions or filings in SCE's 2021 GRC Track 4 and 2025 GRC whether or not opposed by any other party in proceedings before the Commission, including any necessary timing modifications to the Agreement should a Commission decision approving the Petition for Modification be issued after the deadline for procuring commercial insurance for the 2023-2024 policy year. Consistent with Rule 12.6, if this Agreement is not adopted by the Commission, the Parties agree that its terms are inadmissible in any evidentiary hearing unless their admission is agreed to by the Parties. The provisions of this Section shall impose obligations on the Parties immediately upon the execution of this Agreement.

4.10 Rejection or Modification of the Agreement

The Parties agree that if the Commission fails to adopt this Agreement in its entirety and without modification, the Parties shall convene a conference within 15 days thereof to discuss whether they can resolve the issues raised by the Commission's actions. If the Parties cannot mutually agree to resolve the issues raised by the Commission's actions, the Agreement shall be rescinded, and the Parties shall be released from their obligation to support the Agreement. Thereafter the Parties may pursue any action they deem appropriate but agree to cooperate in establishing a procedural schedule.

4.11 Severability

The Parties agree that the provisions of this Agreement are not severable. If the Commission, or any Court of competent jurisdiction, rejects, overrules or modifies as legally invalid any material provision of the Agreement, the Agreement may be considered rescinded as of the date of such ruling or modification becomes final, at the discretion of the Parties.

4.12 Voluntary and Knowing Acceptance

Each of the Parties hereto acknowledges and stipulates that it is agreeing to this Agreement freely, voluntarily, and without any fraud, duress, or undue influence by any other Party. Each Party has read and fully understands its rights, privileges, and duties under this Agreement, including its right to discuss this Agreement with its legal counsel, which has been exercised to the extent deemed necessary.

4.13 Execution and Amendment

This Agreement and any amendment thereto may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4.14 Effective Date and Term

This Agreement will become effective and binding on each of the Parties as of the date when it is fully executed. It will also be binding upon each of the Parties' respective successors, subsidiaries, affiliates, representatives, agents, officers, directors, employees, and personal representatives, whether past, present, or future. Unless otherwise expressly stated, the obligations set forth in this Agreement shall take effect upon the Commission's approval of this Agreement and shall be limited to the term of the Program Period except as otherwise described in this Agreement.

4.15 Enforceability

The Parties agree and acknowledge that after issuance of the Commission decision approving and adopting this Agreement, the Commission may reassert jurisdiction and reopen this proceeding to enforce the terms and conditions of this Agreement.

4.16 Authority to Sign

Each Party executing this Agreement represents and warrants to the other Party that the individual signing this Agreement and the related Petition for Modification has the legal authority to do so on behalf of the Party.

4.17 Limited Admissibility

Each Party signing this Agreement agrees and acknowledges that this Agreement will be admissible in any subsequent Commission proceeding for the sole purpose of enforcing the Terms and Conditions of this Agreement.

4.18 Estoppel or Waiver

Unless expressly stated herein, the Parties' execution of this Agreement is not intended to provide any of the Parties in any manner a basis of estoppel or waiver in this or any other proceeding.

In witness whereof, intending to be legally bound, the Parties hereto have duly executed this Agreement on behalf of the parties they represent.

INTENTIONALLY LEFT BLANK

PUBLIC ADVOCATES OFFICE AT
THE CALIFORNIA PUBLIC UTILITIES
COMMISSION

By: *__/s/ Linda Serizawa__*

Name: Linda Serizawa
Title: Deputy Director

Date: February 22, 2023

THE UTILITY REFORM NETWORK

By: *__/s/ Robert Finkelstein__*

Name: Robert Finkelstein
Title: General Counsel

Date: February 22, 2023

SOUTHERN CALIFORNIA EDISON
COMPANY

By: *__/s/ David Heller__*

Name: David Heller
Title: Vice President Enterprise Risk
Management and General Auditor

Date: February 22, 2023

APPENDIX A

ADJUSTMENT MECHANISM AND SHAREHOLDER CONTRIBUTION - ILLUSTRATIVE CALCULATIONS

A. Potential Revenue Requirement Increases:

Example 1: The Commission adopts a $150 million self-insurance funding level for the second half of 2023 in a GRC decision issued in mid-May 2023. In August 2023, SCE files an incident report for a catastrophic wildfire. In October 2023, SCE discloses an initial estimate of Self-Insurance Costs likely to be submitted due to the wildfire of $533 million. SCE would file a Tier 2 advice letter as described in Section 3.7 of the Agreement seeking to set the self-insurance funding level for 2024 at $416.5 million.

The revenue requirement would be calculated as follows:

- The difference between the 2023 funding level on an annualized basis ($300 million) and the $533 million estimated Self-Insurance Costs for Wildfire Events in 2023 is $233 million ($533 million - $300 million = $233 million)
- 50 percent of the $233 million difference is $116.5 million
- The $116.5 million figure is added to the 2023 baseline annualized funding level of $300 million to arrive at a new funding level of $416.5 million for 2024
- As of January 1, 2024, $416.5 million could be reduced by up to $24 million for self-insurance funds previously recovered from customers, to the extent unencumbered by prior losses
- The new baseline level of funding going forward, and which will be used in the Adjustment Mechanism for the next year's calculations is $416.5 million

The SCE shareholder contribution would be calculated as follows:

- The amount of claims is $33 million (above $500 million attachment point)
- The shareholder contribution is 2.5% of $33 million ($825,000)

B. Potential Revenue Requirement Decreases:

Example 2: The Commission adopts a $150 million self-insurance funding level for the second half of 2023 in a GRC decision issued in May 2023 and agrees to extend the program through the Program Period. SCE experiences Self-Insurance Costs of $50 million in 2023, $75 million in 2024, $100 million in 2025, $125 million in 2026, and $150 million in

2027. In this scenario, the revenue requirement would be adjusted as follows:

- At the end of 2023, SCE would accrue a $100 million balance of available self-insurance funds ($150 million collected - $50 million in Self-Insurance Costs)
- At the beginning of 2024, SCE would recover its baseline revenue requirement of $300 million (assuming no one-time credit[9])
- During 2024, SCE experiences $75 million of Self-Insurance Costs, which would bring the total available self-insurance balance to $325 million ($100 million balance + $300 million collected - $75 million in Self-Insurance Costs).
- In 2025, SCE would accrue an additional $200 million of available self-insurance funds. This brings the total available self-insurance balance to $525 million ($325 million balance + $300 million collected - $100 million in Self-Insurance Costs).
- In 2026, SCE would accrue an additional $175 million of available self-insurance funds. This brings the total available self-insurance balance to $700 million ($525 million balance + $300 million collected - $125 million in Self-Insurance Costs)
- In 2027, SCE would accrue an additional $150 million of available self-insurance funds. This brings the total available self-insurance balance to $850 million ($700 million balance + $300 million collected - $150 million in Self-Insurance Costs)
- In 2028, the revenue requirement would be reduced from $300 million to $150 million ($1 billion cap of available self-insurance - $850 million balance of available self-insurance accrued through 2027)

[9] As of January 1, 2024, SCE would also return a one-time credit of up to $24 million, to the extent unencumbered by prior losses

APPENDIX B

ILLUSTRATIVE CALCULATION REFLECTING THE BEST-CASE SCENARIO – COST RECOVERY AFTER SELF-INSURANCE FUND CAPITALIZED AT $1 BILLION

The following illustrative calculation reflecting the best-case scenario demonstrates how the annual revenue requirement is recovered from customers if there are $0 in Self-Insurance Costs during the Program Period.

Loss $0 / Funding $300m (in table: $millions)

Item	2023	2024	2025	2026	2027	2028	End of GRC Balance	2029	2030	2031	2032	Total
Estimated Loss Level	$0	$0	$0	$0	$0	$0						$0
Self-Insurance Annual Contribution (Gross)	$150	$300	$300	$274	$0	$0						$1,024
One-Time Credit*		($24)										($24)
Shareholder Contribution (2.5% over $500m loss)	$0	$0	$0	$0	$0	$0						$0
Self-Insurance Annual Contribution (Net)	$150	$276	$300	$274	$0	$0						$1,000
Cumulative Self-Insurance Funding	$150	$426	$726	$1,000	$1,000	$1,000						
Loss Payout	$0	$0	$0	$0	$0	$0	$0					
Self-Insurance Balance	$150	$426	$726	$1,000	$1,000	$1,000	$1,000					
Net Funding Balance at 2028 Year End							$1,000					
Undercollection Recovery Rate								40%	30%	30%		
Gross Undercollection Calculation								$0	$0	$0		$0
Actual Undercollection Amount Applying $300m Annual Cap								$0	$0	$0	$0	$0

* The one-time credit of $24 million would apply as of January 1, 2024, but only to the extent unencumbered by prior losses

ILLUSTRATIVE CALCULATION REFLECTING $400 MILLION IN ANNUAL SELF-INSURANCE COSTS – COST RECOVERY FOR UNDERCOLLECTIONS AT THE END OF THE PROGRAM PERIOD

The following illustrative calculation demonstrates how a hypothetical $370 million undercollection at the end of the Program Period resulting from $400 million in Self-Insurance Costs annually would thereafter be recovered in rates.

Loss $400m / Funding $300m (in table: $millions)

Item	2023	2024	2025	2026	2027	2028	End of GRC Balance	2029	2030	2031	2032	Total
Estimated Loss Level	($400)	($400)	($400)	($400)	($400)	($400)						($2,400)
Self-Insurance Annual Contribution (Gross)	$150	$350	$375	$388	$394	$397						$2,054
One-Time Credit*		($24)										($24)
Shareholder Contribution (2.5% over $500m loss)	$0	$0	$0	$0	$0	$0						$0
Self-Insurance Annual Contribution (Net)	$150	$326	$375	$388	$394	$397						$2,030
Cumulative Self-Insurance Funding	$150	$476	$851	$1,239	$1,633	$2,030						
Loss Payout			($400)	($400)	($400)	($400)	($800)					
Self-Insurance Balance	$150	$476	$451	$439	$433	$430	$430					
Net Funding Balance at 2028 Year End							($370)					
Undercollection Recovery Rate								40%	30%	30%		
Gross Undercollection Calculation								$148	$111	$111		$370
Actual Undercollection Amount Applying $300m Annual Cap								$148	$111	$111	$0	$370

* The one-time credit of $24 million would apply as of January 1, 2024, but only to the extent unencumbered by prior losses

ILLUSTRATIVE CALCULATION REFLECTING $500 MILLION IN SELF-INSURANCE COSTS EVERY OTHER YEAR – RESULTING BALANCE AT THE END OF THE PROGRAM PERIOD

The following illustrative calculation demonstrates how the annual revenue requirement is recovered from customers and how a hypothetical $0 balance remains at the end of the Program Period if there are $500 million in Self-Insurance Costs every other year.

Loss $500m alternate years / Funding $300m (in table: $millions)

Item	2023	2024	2025	2026	2027	2028	End of GRC Balance	2029	2030	2031	2032	Total
Estimated Loss Level	$0	($500)	$0	($500)	$0	($500)						($1,500)
Self-Insurance Annual Contribution (Gross)	$150	$300	$400	$174	$337	$163						$1,524
One-Time Credit*		($24)										($24)
Shareholder Contribution (2.5% over $500m loss)	$0	$0	$0	$0	$0	$0						$0
Self-Insurance Annual Contribution (Net)	$150	$276	$400	$174	$337	$163						$1,500
Cumulative Self-Insurance Funding	$150	$426	$826	$1,000	$1,337	$1,500						
Loss Payout			$0	($500)	$0	($500)	($500)					
Self-Insurance Balance	$150	$426	$826	$500	$837	$500	$500					
Net Funding Balance at 2028 Year End							$0					
Undercollection Recovery Rate								40%	30%	30%		
Gross Undercollection Calculation								$0	$0	$0		$0
Actual Undercollection Amount Applying $300m Annual Cap								$0	$0	$0	$0	$0

* The one-time credit of $24 million would apply as of January 1, 2024, but only to the extent unencumbered by prior losses

ILLUSTRATIVE CALCULATION REFLECTING THE WORST-CASE SCENARIO – COST RECOVERY FOR UNDERCOLLECTIONS AT THE END OF THE PROGRAM PERIOD

The following illustrative calculation reflecting the worst-case scenario demonstrates how a hypothetical $1.477 billion undercollection at the end of the Program Period resulting from $1 billion in Self-Insurance Costs annually would thereafter be recovered in rates. The annual risk of loss greater than or equal to $1 billion is approximately 1.9% for SCE.

Loss $1,000m / Funding $300m (in table: $millions)

Item	2023	2024	2025	2026	2027	2028	End of GRC Balance	2029	2030	2031	2032	Total
Estimated Loss Level	($1,000)	($1,000)	($1,000)	($1,000)	($1,000)	($1,000)						($6,000)
Self-Insurance Annual Contribution (Gross)	$150	$650	$825	$913	$956	$978						$4,472
One-Time Credit*		($24)										($24)
Shareholder Contribution (2.5% over $500m loss)	$12.5	$12.5	$12.5	$12.5	$12.5	$12.5						$75.0
Self-Insurance Annual Contribution (Net)	$163	$639	$838	$925	$969	$991						$4,523
Cumulative Self-Insurance Funding	$163	$801	$1,639	$2,564	$3,532	$4,523						
Loss Payout			($1,000)	($1,000)	($1,000)	($1,000)	($2,000)					
Self-Insurance Balance	$163	$801	$639	$564	$532	$523	$523					
Net Funding Balance at 2028 Year End							($1,477)					
Undercollection Recovery Rate								40%	30%	30%		
Gross Undercollection Calculation								$591	$443	$443		$1,477
Actual Undercollection Amount Applying $300m Annual Cap								$300	$300	$300	$577	$1,477

* The one-time credit of $24 million would apply as of January 1, 2024, but only to the extent unencumbered by prior losses

(END OF ATTACHMENT)